

Insurance, Title and Taxes

Insurance

Insurance coverage requirements may vary depending upon the jurisdiction in which the Subject Property is located and Loan type, and are subject to change. Sellers are responsible for ensuring that appropriate insurance coverage is obtained for each Subject Property.

Insurer Requirements

The required insurance must be provided by one of the following insurers:

a) *An insurance company whose current rating meets the requirements below:*

- For a company rated by A.M. Best Company:
 - A minimum Financial Performance Index of 6 as reported in Insurance Reports - Property/Casualty or Key Rating Guide - Property/Casualty; or
 - A minimum rating of B/III as reported in Insurance Reports - Property/Casualty or Key Rating Guide - Property/Casualty; or
 - A minimum rating of A/VIII as reported in Insurance Reports - International
- For a company rated by DEMOTECH, INC., a minimum rating of A as reported in *First Rate/P&C Financial Stability Ratings*
- For a company rated by Standard & Poor's Corporation
 - A rating of BBBq as reported in Insurer Solvency Review - Property/Casualty Edition; or
 - A minimum rating of BBB as reported in Insurer Solvency Review - Property/Casualty Edition; or
 - A minimum rating of AAisi as reported in International Confidential Rating Service or International Solvency Reports Service

b) *An insurance company ("insurer") whose coverage is guaranteed by another company ("re-insurer") under all of the following conditions:*

- The re-insurer currently has, at a minimum,
 - An A.M. Best Company rating of B/III or (for non-US insurers) A/VIII, or
 - A Standard & Poor's rating of BBB or AAisi
- The re-insurer assumes by endorsement 100 percent of the insurer's liability for any covered loss payable but unpaid by the insurer for reason of insolvency.
- The re-insurer assumes by endorsement to give the policyholder, the Seller and insurer 90-day written notice before canceling or otherwise terminating the guarantee.
- The above endorsements are attached to each property insurance policy accepted by the Seller on account of the endorsements.

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Insurance (continued)

Insurer Requirements (continued)

c) Lloyd's of London

d) Hawaiian Insurance and Guaranty Company (HIG), for 1-4 unit properties in Hawaii, under the terms of a rehabilitation plan administered by the State's Insurance Commission

e) A State Fair Access to Insurance Requirements (FAIR) plan

f) A State beach, hail or windstorm insurance plan

g) A non-admitted insurance company whose current rating is at least one of the following:

- An A.M. Best rating of A, or
- A Standard & Poor's rating of AA-

h) An insurance company whose coverage is guaranteed by the National Flood Insurance Program (NFIP) under a Standard Flood Insurance Policy issued pursuant to the National Flood Insurance Act of 1968, as amended.

It is the Seller's responsibility to monitor the ratings of insurers. Insurers rated by more than one rating company need only meet one of the rating requirements. The insurer must be licensed to do business in the state in which the Subject Property is located.

Hazard Insurance: Permanent Home Loans

a) Minimum Property Insurance Amounts

The Subject Property must be protected against loss or damage from fire and other hazards included in standard extended coverage endorsements. The coverage should provide for claims to be settled on a replacement cost basis.

The required coverage amount is determined as follows:

- If the unpaid principal balance of the Loan is equal to or greater than the value of the improvements, then the minimum coverage amount must be 100% of the value of the improvements.
- If the unpaid principal balance of the Loan is less than the value of the improvements, then the minimum coverage amount must be the greater of the principal balance or 80% of the value of the improvements.
- The value of the improvements is the total estimated reproduction cost shown on the appraisal or the insurable value of the improvements as established by the insurer. If the policy provides for full replacement cost, then the value of the improvements is not used, and the named coverage amount will be deemed sufficient.

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Insurance (continued)

Hazard Insurance: Permanent Home Loans (continued)

b) Deductible Amount

Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible is the higher of \$1,000 or 1% of the face amount of the policy. The deductible clause may apply to either fire, extended coverage, or both. When a policy provides for separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible may be the higher of \$2,000 or 2% of the face amount of the policy.

c) Policy Expiration

The policy expiration date may be no earlier than 60 days after the date the Company funds/purchases the Loan.

d) Manufactured Housing – Type of Property

For manufactured housing, the policy must insure the manufactured home as real property, and not as personal property.

e) Policy Information

The policy must:

- Reflect the name of the Mortgagor;
- Contain the insuring agent's signature;
- Reference the full property address.

f) Covered Property

The policy must be exclusive to the Subject Property or clearly delineate coverage and deductible amounts.

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Insurance (continued)

Construction to Permanent Loans

Construction to Permanent Loans require three specific insurance policies:

- Course of Construction Casualty Insurance – This policy is provided by the Borrower. ALC its successors and assigns should be named as the Loss Payee.
- Worker's Compensation – This policy is provided by the general contractor. General contractors without employees, i.e., all work is performed by sub-contractors, may request a worker's compensation Policy waiver.
- General Liability
 - If provided by the Borrower, a minimum \$300,000 per occurrence is required.
 - If provided by the Builder, a comprehensive general policy of at least \$1,000,000, or a policy including a broad form endorsement is required.

Home Improvement Loans

Standard homeowner's policy that includes workers' compensation and general and personal liability insurance is required.

Lot Loans

Insurance is not required on lot Loans. Borrowers are encouraged to review their current homeowner's policy for liability coverage that can be extended to cover the lot being purchased.

Loss Payee Requirements

The Servicer designated by ALC must be named as First Loss Payee or an original transfer of servicing notification must be included in the funding package submitted to the Company.

Evidence of Paid Premium

The funding package must contain evidence that the policy is paid to date. Acceptable evidence of payment includes any of the following:

- Policy stating premium amount is paid in full.
- Copy of front and back of canceled check.
- Paid receipt from the insurance agent or insurance company.
- Payment deducted on HUD-1.
- A paid receipt must accompany the binder.

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Title Requirements

First Liens

A Lender's ALTA Policy meeting the requirements of this section is required for all first lien Loans, including HELOCs in first lien position.

Second Liens

A Lender's ALTA Policy meeting the requirements of this section is required for all subprime second lien Loans, including HELOCs in first lien position.

For all other second liens, the following requirements apply:

- When the second lien is originated concurrently with a first mortgage (originated by ALC or another lender), a copy of the preliminary title report, commitment, binder, or abstract obtained for the origination of the first mortgage is required. The lender's title insurance coverage amount need not include the amount of the second mortgage. There may be no intervening liens between the first and second mortgages.
- When the second lien is not originated concurrently with a first mortgage, the following requirements apply:
 - Loan/line amounts < \$75,000: A preliminary title report, commitment, binder or abstract is required. A title policy is not required.
 - Loan/line amounts of \$75,001 to \$150,000: A Preliminary Coverage Title Policy (also referred to as a PIRT policy, Jr. Lien Policy, or Limited Title Policy) is required with coverage of at least the amount of the second mortgage Loan.
 - Loan/line Amounts > \$150,000: A Lender's ALTA Policy meeting the requirements of Section 2400 is required.

There may be no intervening liens between the first and second mortgages.

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Title Requirements (continued)

Home Construction Lending – Additional Title Requirements (continued)

The following additional endorsements are required for Home Construction Lending Loans.

Endorsement Numbers	Provisions
100 or Equivalent	Provides comprehensive coverage for insured ALTA Lender against loss by reason of present or future CC&R violations, the encroachment of improvements, or by reason of surface entry for mineral developments.
102.5 or Equivalent	Provides insured construction lender with assurance that the foundations of the structure under construction are within the boundaries of the land, that their location does not violate referenced CC&Rs, and that they do not encroach upon referenced easements.
104.01 or Equivalent	Provides assignee of the insured mortgage with assurance concerning validity of the recorded assignment to evidence transfer of the entire beneficial interest to the named assured assignee; and full or partial reconveyances, modifications, or subordination of the insured mortgage.
116 or Equivalent	Provides insured ALTA Lender with assurance concerning the street address of designated improvements of the land; and, with respect to the sufficiency of the policy plan to show the record location and dimensions of the land.
122 or Equivalent	Provides insured ALTA Lender with assurance concerning obligatory advance made under the insured mortgage; liability limited to the face amount of the policy. ALTA endorsements 122 must be prepaid at closing. The number of endorsements required is dependent upon the construction period.

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Title Requirements (continued)

Minor Impediments to Title

The Company will accept title policies with the minor impediments to title listed below.

- Customary easements for surface public utilities along one or more of the property lines, provided the easement does not extend more than 12 feet and does not interfere with any of the buildings or improvements or with the use of the Subject Property.
- Customary easements for subsurface public utilities which are in place and do not extend under any buildings on the Subject Property.
- Mutual easements for joint driveways provided the agreement is recorded, the easement rights do not interfere with the use and enjoyment of a present improvement or proposed improvement on which the appraisal is based, and all future owners have unlimited and unrestricted use of them.
- Encroachments onto the Subject Property by eaves or other overhanging projections from the adjoining property that do not exceed one foot or interfere with the use and enjoyment of any improvement on the Subject Property, provided there is at least a ten foot clearance between the buildings on the Subject Property and the property line affected by the encroachment.
- Encroachments onto adjoining property by hedges or removable fences belonging to the Subject Property, so long as neither the current encroachment nor a future correction will interfere with the use and enjoyment of the balance of the property.
- Encroachments onto adjoining property by driveways belonging to the Subject Property that do not exceed one foot, provided there exists a clearance between the buildings on the Subject Property and the affected property line of at least ten feet.
- Variations in lot lines of 2% or less on the front line and 5% or less on all other lines, provided such variations do not interfere with the current use of the property.
- Exceptions for outstanding oil, water, gas or mineral rights which are customarily waived in the area where the Subject Property is located, provided the exercise of such right will not result in damage to or impairment of use or marketability of the Subject Property, there are no rights of surface or subsurface entry within 200 feet of the residential structure and the policy contains a comprehensive endorsement that insures the originator against damage or loss.
- Easements for drainage or irrigation along the rear of the property, provided the exercise of the rights thereunder do not interfere with any of the buildings or improvements located on the Subject Property.
- Violations of cost or setback restrictions that are minor provided:
 1. The restrictive agreements or covenants do not create or provide for any lien that would be prior to the lien of the Security Instrument nor provide for the elimination of the lien of the Security Instrument;
 2. The terms and provisions are commonly acceptable to private institutional investors; and
 3. An endorsement to the title policy is provided that insures that no violation of any such restrictive agreement or covenant exists and that any future violation shall not result in forfeiture or revision of title.

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Title Requirements (continued)

Minor Impediments to Title (continued)

- Encroachments on adjoining property by eaves or other projections attached to improvements on the Subject Property, provided that an endorsement to the title policy is obtained insuring against loss if there is a decree or court order requiring the removal of the encroachment.
- Mutual easements for a party wall if the agreement is recorded.
- Fence misplacements (not including retaining wall or other permanent structures) on either side of the property line of the Subject Property, provided that neither the misplacement, nor a future correction thereof will interfere with the use and enjoyment of any improvements on the Subject Property nor with the use and enjoyment of the portion of the Subject Property not occupied by improvements.

On a case by case basis, Loans with minor impediments to title other than those listed may be purchased by ALC, provided that the Seller warrants to ALC that any such impediments do not adversely affect the value, use, enjoyment or marketability of the Subject Property. The Seller must have the Company's prior approval of such impediments before the Loan is delivered. The Seller agrees to reimburse ALC if a loss is incurred that can be attributed to any such impediments. In addition, Seller must provide the following:

- A statement from the appraiser that the exception does not affect the value of the property.
- A waiver from the primary mortgage insurer, if applicable.
- Any additional documentation or information ALC deems necessary.

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Taxes

Manufactured Housing Taxation

For manufactured housing Loans, the land and improvements must be taxed as real estate provided such taxation is permitted under state law. This provision does not apply to new construction.

Tax Information Sheet

A Tax Information sheet is required for all Loans. The information may be obtained from the closing agent, title company or tax assessor's/collector's office. The information must include each applicable tax or assessment for the Subject Property and the following information:

- Tax/Assessment Authority Name
- Tax/Assessment Authority Address
- Annual Amount of Tax or Assessment
- Date Last Paid
- Tax Parcel/Account/I.D. Number
- Next Due Date
- Frequency of payment (Annual, Semi-Annual, Quarterly)

Tax Service Contract

A Tax Service Contract is required for all Loans. The Seller may submit a completed and purchased Life of Loan Transferable Contract from First American Real Estate Tax Service.

If an acceptable contract is not submitted, a Tax Service Contract fee of \$69.00 will be deducted from the wire amount.

Subsequent Transfer of Servicing

For any loan purchased by the Company with servicing retained by the broker in which the servicing rights are subsequently purchased or acquired by the Company (with or without cause), a transferable Life of Loan tax contract from First American Real Estate Tax Service is required. If a transferable First American Life of Loan tax contract was not previously obtained by the Seller/Servicer, or if the Life of Loan contract obtained was issued by a company other than First American, the Servicer will be charged any fees incurred by the Company to obtain the required contract.